1979 Annual Report
Petrofina Canada Inc.

FINA

YRENE POLYSTYRENE POLYS ENE POLYSTYRENE POLYSTYRENE
RENE POLYSTYRENE POLYSTY ENE POLYSTYRENE POLYSTYRENE
ENE POLYSTYRENE POLYSTYRI E POLYSTYRENE POLYSTYRENE POLYSTYRENE
RENE POLYSTYRENE POLYSTYF ENE POLYSTYRENE POLYSTYRENE
ENE POLYSTYRENE POLYSTYRE POLYSTYRENE POLYSTYRENE
STYRENE POLYSTYRENE POLYS RENE POLYSTYRENE POLYSTYRENE
ENE POLYSTYRENE POLYSTYRI NE POLYSTYRENE POLYSTYRENE
NE POLYSTYRENE POLYSTYREN POLYSTYRENE POLYSTYRENE
YRENE POLYSTYRENE POLYST RENE POLYSTYRENE POLYSTYRENE
RENE POLYSTYRENE POLYSTY NE POLYSTYRENE POLYSTYRENE
NE BENZENE BENZENE BENZ ZENE BENZENE BENZENE BENZENE
ENE BENZENE BENZENE BEN ENE BENZENE BENZENE BENZENE BENZENE
NE BENZENE BENZENE BENZ NE BENZENE BENZENE BENZENE
ENE BENZENE BENZENE BEN ENE BENZENE BENZENE BENZENE
ENE BENZENE BENZENE BE ZENE BENZENE BENZENE BENZENE
ENE BENZENE BENZENE B NE BENZENE BENZENE BENZENE
E BENZENE BENZENE BEN BENZENE BENZENE BENZENE
ENE BENZENE BENZENE NE BENZENE BENZENE BENZENE
BENZENE BENZENE BENZ NZENE BENZENE BENZENE
NE BENZENE BENZENE BENZENE BENZENE BENZENE
NE TOLUENE TOLUENE T OLUENE TOLUENE TOLUENE
ENE TOLUENE TOLUEN TOLUENE TOLUENE TOLUENE TOLUENE
UENE TOLUENE TOLUE TOLUENE TOLUENE TOLUENE
TOLUENE TOLUENE T UENE TOLUENE TOLUENE
TOLUENE TOLUENE T UENE TOLUENE TOLUENE
NE TOLUENE TOLUEN LUENE TOLUENE TOLUENE
LUENE TOLUENE TOL TOLUENE TOLUENE TOLUENE
ENE TOLUENE TOLU UENE TOLUENE TOLUENE
TOLUENE TOLUEN ENE TOLUENE TOLUENE
NE TOLUENE TOLU ENE TOLUENE TOLUENE
LENE XYLENE XYLE LENE XYLENE XYLENE
E XYLENE XYLEN XYLENE XYLENE XYLENE XYLENE
ENE XYLENE XYL NE XYLENE XYLENE
LENE XYLENE XY ENE XYLENE XYLENE
LENE XYLENE XY NE XYLENE XYLENE
E XYLENE XYLE YLENE XYLENE XYLENE
XYLENE XYLEN ENE XYLENE XYLENE
YLENE XYLENE NE XYLENE XYLENE
XYLENE XYLE ENE XYLENE XYLENE
ENE XYLENE XYLENE XYLENE
EUM PETROL EUM PETROLEUM
EUM PETROL M PETROLEUM PETROLEUM
LEUM PETRO LEUM PETROLEUM
OLEUM PETR OLEUM PETROLEUM
EUM PETROLE LEUM PETROLEUM
OLEUM PETROLE ROLEUM PETROLEUM
LEUM PETROLEUM PETROLEUM PETROLEUM
ROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM
LEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM
OLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM

# Contents



**Annual and Special Meeting**

The Annual and Special Meeting of Shareholders will be held in the Auditorium, Mezzanine Floor 2 (M-2) The Royal Bank of Canada Building, 1 Place Ville Marie, Montréal, Québec, at 12:00 noon on April 24, 1980

**Change of name**

On August 9, 1979, coincident with it's continuance under the Canada Business Corporations Act, the Company's name was changed to Petrofina Canada Inc.

Ce rapport a été publié en français et en anglais. Si vous préférez un exemplaire français, veuillez en faire la demande au:
Secrétaire,
Petrofina Canada Inc.,
1, Place Ville-Marie,
Montréal, Québec, Canada
H3B 4A9

# Comparative Highlights

## Financial

(in thousands of dollars except per share amounts)

| | 1979 | 1978* | % Increase |
|---|---|---|---|
| Revenue | $ 764,400 | $ 593,600 | 28.8 |
| Cash generation from operations | 121,600 | 56,400 | 115.6 |
| — per common share | 12.10 | 5.63 | 115.6 |
| Net earnings | 61,600 | 23,300 | 164.4 |
| — per common share | 6.13 | 2.33 | 164.4 |
| Dividends paid on common shares | 13,000 | 12,000 | 8.3 |
| — per common share | 1.30 | 1.20 | 8.3 |
| Capital expenditures — Syncrude | 184,900 | — | — |
| — Other | 59,100 | 43,900 | 34.6 |
| Long-term debt at end of year | 256,500 | 85,600 | 199.6 |
| Shareholders' equity at end of year | 307,400 | 258,200 | 19.1 |
| Working capital | 110,300 | 62,600 | 76.2 |
| Return on average capital employed | 14.6% | 8.0% | 82.5 |
| Return on average shareholders' equity | 21.8% | 9.2% | 137.0 |
| Salaries, wages, employee benefits | 49,100 | 44,300 | 10.8 |
| Taxes charged against income | 49,700 | 26,000 | 91.2 |
| Total taxes generated | 163,800 | 143,100 | 14.5 |
| Crown royalties paid | 34,100 | 26,300 | 29.7 |

*As restated in 1979.

## Operating**

| | Rates per Day | | % Change |
|---|---|---|---|
| Production of crude oil and natural gas liquids | | | |
| — gross (cubic metres) — conventional | 3 300 | 2 800 | + 14.9 |
| — synthetic | 390 | — | — |
| Natural gas produced and sold | | | |
| — gross (thousands of cubic metres) | 2 300 | 2 100 | + 11.6 |
| Sales of sulphur (tonnes) | 380 | 480 | −20.5 |
| Crude oil runs to refinery (cubic metres) | 12 400 | 11 500 | + 7.4 |
| Refined product sales (thousands of litres) | 10 900 | 11 000 | − 1.0 |

## Share Prices

| | Quarter | 1st | 2nd | 3rd | 4th |
|---|---|---|---|---|---|
| Closing Quarterly Common Share Prices as | 1978 | $20⅜ | $18½ | $21⅜ | $22⅜ |
| Traded on the Toronto Stock Exchange | 1979 | 26⅛ | 40 | 45¼ | 47½ |

**Conversion Table

One Cubic Metre = 6.290 Barrels
= 35.315 Cubic Feet

One Tonne = 0.984 Long Ton

# To the Shareholders

Compared with recent years, your Company's financial results for 1979 represent a most welcome change. As a result, we will be able to move forward in two key areas — the security of supply of Canadian oil and the manufacture of basic plastics and, in so doing, provide impetus for our future growth.

The return on average capital employed, which has been at an unsatisfactory level since 1975, reached 14.6% in 1979. This is clearly more acceptable and not at all unreasonable in the light of current inflation rates, the cost of money, and our industry's inherent risks. And, when measured against traditional criteria of corporate profitability, the increase in our net income from $23.3 million, on a restated basis, to $61.6 million is far from excessive.

Net income in 1979 was $6.13 per share, compared with $2.33 the previous year. Dividends of $1.30 per share were paid which left $4.83 or 79% of net income available for reinvestment by the Company.

You will note from this report that all operating areas of the Company recorded significant progress in 1979. Two events, however, deserve special mention. The acquisition by your Company of a 5% interest in the Syncrude project in Alberta and the decision to start construction of an impact polystyrene plant in the province of Quebec.

Our participation in the Syncrude project, the world's largest oil sands development, will add some 60 million barrels of synthetic crude oil to our reserves.

The polystyrene plant, with an annual production capacity of 36 000 tonnes, should be on stream in 1981. This marks the beginning of an important expansion phase for your Company and its subsidiary, Finachem Canada Inc., into the important plastics field.

These two undertakings, a combined capital investment of $200 million, would probably not have materialized had it not been for our excellent financial results.

The very dramatic turn of events in the Middle East and the further sharp rise in the price of imported oil should dissipate any remaining doubt about the urgency of developing Canada's enormous untapped fossil fuel resources, in order to reduce our growing dependence on foreign sources of supply.

We have witnessed the extent to which our governments and political leaders are divided and confused about energy self-sufficiency. This is particularly true in respect of the role to be played by private petroleum companies in development programmes and of the share of production revenue they should derive from that activity.

The private sector of the petroleum industry has, for decades, demonstrated clearly its ability to meet the energy needs of Canadians within the guidelines set by governments in a free market economy. There are those, however, who would forget the significant contribution of oil companies to the development of domestic petroleum resources and to the establishment of a Canadian industry from which governments derive considerable benefits.

In the formulation of a clear and coherent future national oil policy, it is essential that our political leaders take care to establish and preserve, through appropriate fiscal measures, the climate of confidence necessary to ensure the presence of a dynamic and aggressive private oil sector in Canada.

Some Canadians would have the State substitute itself for private enterprise not only in the production and supply but also in the refining and marketing of petroleum products. Not only is it extremely doubtful that such a radical solution would produce any economic advantage for Canadian consumers but surely the lessons of contemporary history have made it abundantly clear that it is extremely dangerous to mix petroleum and politics!

Conscious of its responsibility to secure domestic oil supplies, your Company will initiate an aggressive programme of exploration and development in 1980 by investing an amount of some $60 million. This compares with $34.6 million in 1979 (excluding the $185 million investment in the Syncrude project), and $26.2 million in 1978.

Your Company has an 8% equity interest in the Alsands project. Unfortunately, negotiations between the consortium and the federal and Alberta governments on the fiscal and economic provisions governing the Alsands project were interrupted by the defeat of the federal government in December and the subsequent election campaign. Application for this gigantic project, estimated at more than $6 billion, had been submitted to the Alberta Energy Resources Conservation Board which, in turn, recommended approval in principle to the Government of Alberta.

In the areas of manufacturing and marketing, we will intensify in 1980 our strategy of equipment optimization and energy conservation. We will also have to maintain the necessary economic balance between crude oil supplies, refining capacity and market constraints.

In 1979, your Company gave added emphasis to its communications with the public. Therefore, a number of members of management have taken on leadership positions within professional and industrial associations and organizations. Our active presence in the Canadian socio-political environment, regionally and nationally, bears witness to your Company's commitment to being a responsible corporate citizen.

A number of improvements were made to the employees' benefit plans and working conditions in 1979. These changes are aimed at maintaining within Petrofina Canada a working climate that is both motivating and productive. The philosophy of recognizing work well done and of having employees participate in the growth of the firm led to your Company's decision to purchase for all permanent employees a block of common shares equal to one month's salary. This extraordinary bonus also constitutes a special vote of thanks to all employees for their dynamism and proficiency in 1979.

Finally, I am pleased to report that Messrs. Jean-Pierre Amory and Claude Castonguay joined your Board of Directors in 1979. These gentlemen bring to your Company both valuable experience and a recognized high degree of competence in business and industry.

On behalf of the Board

Chairman of the Board
President and Chief Executive Officer

Montreal, February 21, 1980.

On September 25 in Calgary, Mr. Pierre Nadeau, accompanied by Mr. J.E. Baugh, Senior Vice-President, executed the documents relating to the acquisition of a 5% interest in the Syncrude project.

# Review of Activities

## Financial Review

Consolidated net earnings for 1979 reached $61.6 million, compared with $23.3 million on a restated basis for 1978. The increased earnings in 1979 can be attributed to the combination of higher production rates and higher prices for crude oil and natural gas and to improved margins on refined products and petrochemicals.

Net earnings per common share amounted to $6.13 for 1979, compared with $2.33 for the preceding year. The rate of return on average capital employed was 14.6%, a significant improvement over the 8% recorded in 1978.

Gross revenues for 1979 totalled $764.4 million, an increase of 29% over the $593.6 million achieved in 1978.

Cash flow from operations amounted to $121.6 million, an increase of 116% over the figure for 1978.

Direct and indirect taxes paid or accrued during 1979 reached a total of $163.8 million, an increase of 14.5% over 1978. Included in this amount are $114.0 million in taxes collected on behalf of Provincial and Federal governments.

### Segmented Operating Results

It is instructive to consider the comparative financial results by operating segments, as shown in the following summary statement for the past two years.

### Capital Expenditures

Expenditures for properties and for plant and equipment were as follows: —

| | 1979 | 1978 |
|---|---|---|
| | (millions of dollars) | |
| Exploration and production: | | |
| Conventional | $ 34.6 | $26.2 |
| Syncrude | 184.9 | — |
| Manufacturing | 16.9 | 9.3 |
| Marketing | 7.6 | 8.4 |
| | $244.0 | $43.9 |

These expenditures represent an investment equal to 200% of the Company's cash flow from operations and 396% of its profits for 1979.

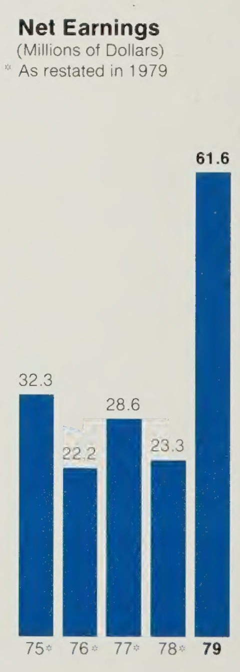
The acquisition, effective September 1, 1979, of a 5% interest in the Syncrude project was financed by a $185 million term bank loan which matures February 1, 1982.

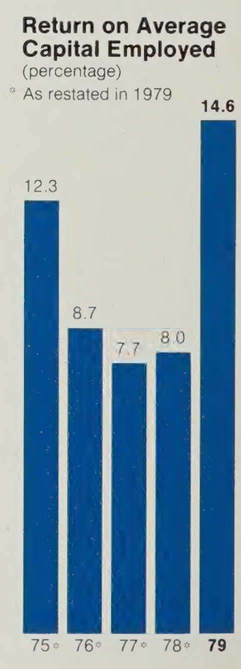
Semi-annual dividends were paid on the common shares of the Company at the rate of 60¢ per share on March 30, 1979, and 70¢ per share on September 28, 1979. The total of $1.30 paid per share is an increase of 8.3% over that paid in 1978.

| | Revenues | | Net Earnings | | Capital Employed at December 31 | |
|---|---|---|---|---|---|---|
| | (millions of dollars) | | | | | |
| | 1979 | 1978 | 1979 | 1978 | 1979 | 1978 |
| Segments: Resources | $117.6 | $ 88.9 | $45.1 | $34.5 | $374.3 | $163.7 |
| Refined Products & Petrochemicals | 646.8 | 504.7 | 26.1 | (6.4) | 294.2 | 257.1 |
| Interest on long-term debt | — | — | (9.6) | (4.8) | — | — |
| | $764.4 | $593.6 | $61.6 | $23.3 | $668.5 | $420.8 |

These figures show the considerable turnaround in downstream economics in the past fifteen months. Margins have generally improved to more acceptable levels in consumer products, particularly in our major marketing areas which had been severely depressed for several years.

The large increase in capital employed in the resources segment is due in great measure to the $185 million investment, effective September 1, 1979, in the Syncrude project. The balance represents continuing capital investment in conventional oil and gas activities.



## Exploration and Production

In 1979, our Company pursued an aggressive exploration and development programme involving conventional oil and gas, oil sands development, and coal.

Our budget was increased substantially during the year, resulting in total expenditures of nearly $35 million on conventional projects. In concert with other members of the petroleum industry, Petrofina Canada responded to the national requirement for maximizing production in an effort to reduce dependence on oil imports. Our investment of additional time, effort and money in our producing facilities is making an important contribution to Canada's energy requirements, and the resulting increased revenue strengthens our exploration capacity.

In 1979, the Company engaged in the largest drilling programme in its history with participation in a total of 111 wells. Of these, 27 are oil wells, 44 are gas wells, and 10 were either still drilling or awaiting completion at year end.

Technological improvement in geophysical operations is reflected in the increasing importance which our Company has devoted to this aspect of the discovery process. Approximately $2.7 million were spent in 1979 and some 2 300 kilometres (1 400 miles) of seismic lines were shot or acquired from industry sources. Our plans for 1980 will see seismic expenditures increased.

Competition in land acquisition is intense, nevertheless Petrofina Canada was able to acquire 39 700 hectares (99 000 acres) net at a competitive total cost of $7,880,000 in the course of 1979.

The Company had a successful year in gas discovery and development with 18 discovery wells (see map) and 26 development wells, spread through various parts of Alberta and north-eastern British Columbia. These, together with gas wells drilled in previous years which remained shut-in due to lack of markets give the Company a potential of approximately 1.4 million cubic metres (50 million cubic feet) of daily gas production in addition to the average of 2.3 million cubic metres (81.7 million cubic feet) per day produced during 1979. Bringing this potential into production, however, will depend on the expansion of markets in Canada and the United States.

At December 31, 1979, the Company held interests in 567 oil wells and 384 gas wells capable of production in non-unitized fields, or 186 net oil wells and 108 net gas wells. Petrofina Canada also held varying interests in 72 unitized fields.

### British Columbia

#### Kimea

In this area, north-east of Fort Nelson, the Company holds interests varying from 35% to 100% in 46 800 gross hectares (115 600 acres) with a net of 13 100 hectares (32 400 acres). A gas discovery in 1978 was followed by a second in 1979 which tested 197 000 cubic metres (7 million cubic feet) per day in the Middle Devonian Keg River formation, with a lesser flow from the Upper Devonian Jean Marie. A farmout well found further gas and oil. Additional seismic work and drilling will be carried out in 1980.

#### West Buick Creek

Thirty miles north-west of Fort St. John, the Company holds a 40% to 100% interest in 6 500 hectares (16 100 acres) where, to date, two Cretaceous gas wells and two dual zone oil and gas wells in the Triassic formation have been drilled.

#### Paddy

At Paddy, 100 miles north of Fort St. John, the Company holds interests in 78 100 hectares (193 000 acres) under a farmin from the British Columbia Resources Investment Corporation. A 260 kilometre (160 mile) seismic program has been completed, and drilling will follow early in 1980. Petrofina Canada will earn a 25% working interest in this property.

The Company also holds from 40% to 50% working interest in 15 500 additional gross hectares (38 400 acres) in the same general area, with seismic work and drilling planned for 1980.

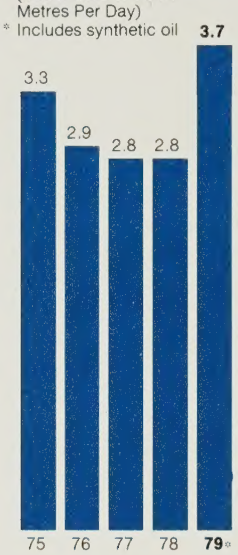
#### Foothills Belt

The Company holds 56 000 net hectares (138 500 acres) in 8 projects in Alberta and British Columbia, including its Wapiti Block which is about 75 miles south-west of Grande Prairie, where a 532 000 cubic metre (19 million cubic foot) per day gas discovery was made in 1978. Access is now being prepared for a second Wapiti well on a promising seismic structure, and drilling will commence early in 1980.

#### Rigel

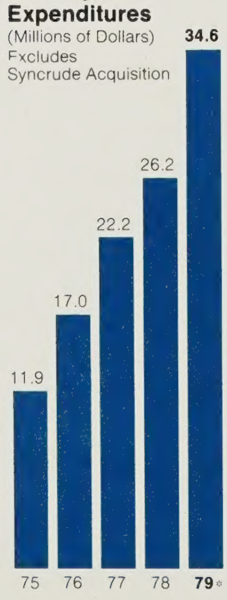
The Company holds a working interest, ranging from 6¼% to 25%, in 30 400 gross hectares (75 000 acres), with a net of 6 300 hectares (15 600 acres), in and adjoining the Rigel gas field, fifty miles north of Fort St. John. A step-out gas discovery has been made and additional drilling is planned.

**Gross Production Crude Oil & Natural Gas Liquids**
(Thousands of Cubic Metres Per Day)
* Includes synthetic oil

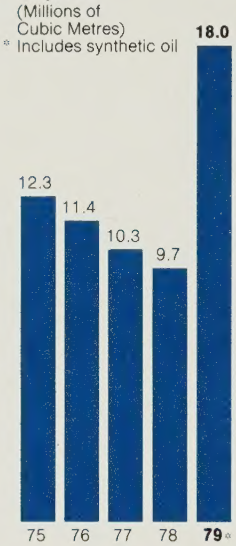



**Gross Sales Natural Gas**
(Millions of Cubic Metres Per Day)

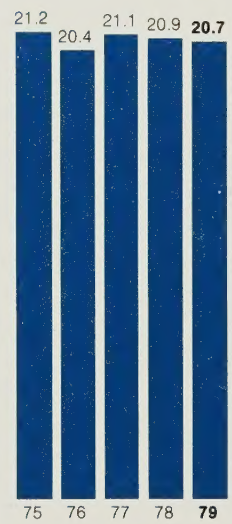

**Exploration and Development Expenditures**
(Millions of Dollars)
* Excludes Syncrude Acquisition




**Gross Reserves Crude Oil & Natural Gas Liquids**
(Millions of Cubic Metres)
* Includes synthetic oil




**Gross Reserves Natural Gas**
(Billions of Cubic Metres)




## Alberta

### Gold Creek West — Sonnet

In north-western Alberta, in the Elmsworth deep basin gas play, the Company has completed a second well which tested gas at 204 000 cubic metres (7.2 million cubic feet) per day from the Spirit River Sand. A third well tested 110 000 cubic metres (3.9 million cubic feet) per day from the Conglomerate. The first gas well was drilled in 1978 on this property, in which Petrofina Canada holds a 50% interest in 5 400 gross hectares (13 400 acres).

### Hanlan — Coalspur

In 1979, a well proved up additional reserves in the Hanlan Swan Hills reef complex, in which the Company holds a 20% to 25% interest. Pay thicknesses run up to 43 metres (140 feet) with gas production tests as high as 780 000 cubic metres (22 million cubic feet) per day. Elsewhere in the Coalspur project, a Nisku seismic anomaly was drilled on lands in the West Pembina play in which the Company holds a 10% interest. Indications are that the well is a gas discovery with 24 metres (80 feet) of reef pay. A second Nisku anomaly, in which the Company holds a 5% interest, was drilling at year end.

### Whitecourt

This prolific area in west-central Alberta continued to be the scene of intensive drilling activity. The Company participated in drilling 13 exploratory wells, 5 of which are classified as gas wells and 1 is classified as an oil well. The Company also participated in drilling 25 development wells, resulting in 8 oil wells and 13 gas wells. As a result, Whitecourt continues to add significant reserves, and the Petrofina Canada drilling programme will be maintained at a high level in 1980.

## Maritimes

The Company holds a 14% interest in approximately 1.6 million hectares (4 million acres) of mineral rights, offshore Prince Edward Island, in an area where the presence of hydrocarbons was established by the drilling programme of 1970. Evaluation was not completed at that time, due to adverse weather and economics. A farmout was under negotiation at the end of 1979 whereby an offshore well would be drilled, at a cost of approximately $9 million.

### Arctic Islands

The Company holds a 2% carried interest in approximately 22 million gross hectares (55 million acres) held by Panarctic Oils Ltd. in Arctic areas off the Canadian mainland. The Panarctic Whitefish wells, 42 kilometres (26 miles) west of Lougheed Island, reported gas on test at 229 000 cubic metres (8.1 million cubic feet) per day. Gas reserves in the order of 113 to 142 billion cubic metres (4 to 5 trillion cubic feet) are considered possible in this area, and Panarctic is expected to follow up the discovery with additional drilling in 1980.

### Acreage Holdings

Year end acreage holdings of petroleum and natural gas rights, in the form of permits and reservations came to approximately 2 091 000 hectares (2 825 000 acres) gross. Net holdings amounted to approximately 904 000 hectares (2 261 000 acres). Holdings of coal rights add approximately 95 000 hectares (237 500 acres) gross, and net holdings are 72 000 hectares (180 000 acres).

### Sales

Sales of conventional crude oil and natural gas liquids, totalled 1 190 000 cubic metres (7 490 000 barrels) before royalty, an increase of 154 000 cubic metres (970 000 barrels) over 1978. Sales of synthetic crude oil added 47 000 cubic metres (297 000 barrels) before royalty. Natural gas sales, before royalty, increased to 841 million cubic metres (30 billion cubic feet), from 754 million cubic metres (26.8 billion cubic feet) last year due to increased nominations by purchasers under the Company's gas sales contracts. Sulphur sales decreased to 138 000 tonnes (136 000 long tons) from 174 000 tonnes (171 000 long tons) in 1978.

In 1979, crude oil production in Canada was at or near maximum operating capacity throughout the year and the situation in 1980 promises to be the same.

Further extensive hearings were held by the National Energy Board on natural gas supply and demand, and applications were considered from several companies for expanded exports to the United States. In December the National Energy Board approved additional exports of 105 billion cubic metres (3.75 trillion cubic feet) with certain restrictive conditions attached which may jeopardize the financing of the required new delivery facilities. Petrofina Canada has contracts with several of the applicants, and will share significantly in gas sales associated with this export.

## 1979 Oil and Gas Discoveries

The average gross wellhead price for crude received by Petrofina Canada during the year was $83.34 per cubic metre ($13.24 per barrel), an increase of $6.13 per cubic metre ($0.97 per barrel) over the preceding year, and the average price for natural gas increased to $63.31 per thousand cubic metres ($1.78 per thousand cubic feet) from $55.02 per thousand cubic metres ($1.55 per thousand cubic feet) in 1978. The average price received for synthetic crude oil between September 1, 1979, and the end of the year, was $165.89 per cubic metre ($26.36 per barrel).

**Reserves**

The Company's proven reserves of conventional crude oil and natural gas liquids were estimated, at the end of the year, at 8.5 million cubic metres (54 million barrels) before royalty, and natural gas reserves were estimated at 20.7 billion cubic metres (735.7 billion cubic feet). Remaining sulphur reserves were estimated at 2.4 million tonnes (2.3 million long tons). In addition, the Company's interest in Syncrude has added about 9.5 million cubic metres (60 million barrels) gross of synthetic crude oil.

**Oil Sands**

Petrofina Canada has held interests for many years in several areas underlain by the Athabasca Oil Sands, and is currently involved in two major projects: the Syncrude surface mining project, which has been producing synthetic crude for more than a year, and the similar Alsands project which received technical approvals from the Alberta Energy Resources Conservation Board in 1979.

Syncrude

Effective September 1, 1979, Petrofina Canada acquired a 5% interest in the Syncrude project, at a cost of $185 million and an overriding royalty of 8% of the value of the Company's share of production, subject to annual and cumulative volume limits.

The Syncrude plant went on stream in 1978. It is still experiencing some difficulties in the mining and upgrading operations, but production reached an average daily level of 8 000 cubic metres (50 000 barrels) in 1979, and this is expected to increase to about 11 900 cubic metres (75 000 barrels) per day in 1980.

The approved mining area is known to contain sufficient bitumen to support production at a design rate of 20 600 cubic metres (129 400 barrels) per day for 25 years. Substantial additional reserves on the project leases will allow either higher rates of production or an extended project life.

Both the governments of Canada and of Alberta have given the participants in the Syncrude project their assurances that synthetic crude oil produced by the plant will sell at the higher of either the prevailing international price or the price of Canadian crude oil of similar quality at the plant gate. Production and sale of synthetic crude oil, furthermore, will not be subject to prorationing or any other volumetric restrictions.

The Government of Alberta, in addition to holding a 10% participating interest in Syncrude, is entitled, as lessor, to 50% of the deemed net profits from the operation, as defined in the agreement between Alberta and the participants. This share of profits can, at the Government's option, be converted to a 7½% gross production royalty at any time after March 1, 1984.

The deemed net profit interest and the 7½% gross production royalty option are both subject to change, should there be a major change in circumstances not reasonably foreseeable at the time the agreement was executed in 1975. Unlike the case for provincial royalties on conventional oil, this profit share (or alternatively, gross production royalty) is deductible from income by Syncrude owners in calculating Canadian corporate income tax.

Alsands Project

Last year, Petrofina Canada entered into an agreement which created the Alsands Project Group, a consortium of nine companies, to develop an oil sands mining project similar to Syncrude.

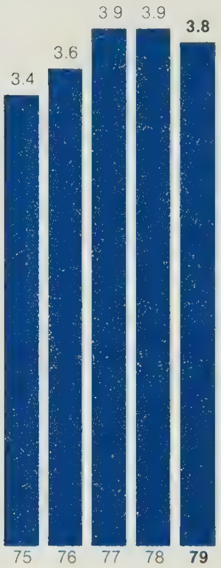
Acceptable terms are still being sought by the Group from the Canadian and Alberta Governments in respect to taxes, royalties, other necessary permits and commitments, plus the assurance that synthetic crude oil produced by the project will receive world price. These negotiations, however, have been interrupted by the fall of the federal Government in December 1979, and some difficulties may be experienced in achieving our scheduled 1986 start-up date.

**Coal**

In recent years, Petrofina Canada has extended its activities in the energy field by the acquisition of coal rights in Alberta and British Columbia.

Technological improvement in geophysical operations is reflected in the increasing importance which our Company has devoted to this aspect of the discovery process.

**Sales of Gasoline**
(Thousands of Cubic Metres Per Day)




**Sales of Other Products**
(Thousands of Cubic Metres Per Day)


**Sales of Middle Distillates**
(Thousands of Cubic Metres Per Day)


**Total Sales of Petroleum Products**
(Thousands of Cubic Metres Per Day)


The Company has a 45% interest in 3 200 hectares (8 000 acres) of provincial and freehold coal leases near Lethbridge, Alberta, where core drilling has delineated an extensive coal seam. A mining engineering study, recently completed, shows that the property is suitable for underground mining of most of the coal, with gross recoverable reserves estimated at more than 46 million tonnes.

Additional coal interests in Alberta have been acquired east of Lethbridge in the Purple Springs and Grassy Lakes areas, in the Whitecourt area, and at Bigoray near the Pembina oil field.

## Supply

The year 1979 was another in which the problems of crude supply were complicated by various political and economic constraints, requiring a combination of flexibility and aggressiveness to meet unforeseeable national and international difficulties.

Crude oil purchases for the year totalled 4.4 million cubic metres (27.8 million barrels), at an overall cost of $415 million. Total receipts of western Canadian crude were 3.2 million cubic metres (20.0 million barrels). There were also 1.1 million cubic metres (6.7 million barrels) of direct foreign purchases, and the remainder was foreign crude obtained through Canadian/American exchanges.

The Canadian subsidy programme for imported crude oil is based on compensating for the difference in cost between the controlled Canadian crude price and the average net laid-down cost of all imported crude oil. Petrofina Canada's imported crude was generally at a cost above this average with the result the subsidy did not compensate us fully. This was mostly due to the Iranian crisis which reduced our foreign supplies by 30%, and subsequently the Iraqi "embargo" on crude shipments to Canada.

The bulk of our petrochemicals were shipped by the tanker Terutoku Maru. Our Company participated in the operation of this vessel on a profit sharing basis during 1979 which resulted in a significant saving in transport costs.

## Manufacturing

In 1979, the refinery processed an average of 12 400 cubic metres (77 800 barrels) of crude per day. This represented an increase of 7.5% over the preceding year. Approximately 64% of the total was western Canadian, 32% various Middle East types, and the balance South American and synthetic crude oil.

The reduced rate of growth in consumption of conventional petroleum products has largely contributed to the re-orientation of the refining capacity.

The continuing increases in the cost of fuel have prompted us to stress energy conservation projects. As a result, our refinery fuel consumption in 1979, including losses, has declined on an equivalent basis by 30% since 1973. On a year to year comparison, 1979 consumption reflected a reduction of 8% on our 1978 energy bill, for a total saving of approximately $3.4 million.

During 1979, there were major shutdowns of the hydrocracker and hydrogen plants to permit the installation of a new hydrogen make-up compressor on the hydrocracker. This new compressor will increase throughput to the hydrocracker by approximately 300 cubic metres (2 000 barrels) per day, providing an increase of 0.9% in the yield of aromatics on total crude throughput. This aspect of Petrofina Canada's manufacturing operations continued to be emphasized in 1979, and the extraction of aromatics reached a new record at 335 million cubic metres (2.1 million barrels) or 7.4% of total crude throughput.

New biological treating facilities for handling refinery effluent water were also put into service in October. They are operating satisfactorily and the effluent is meeting government standards.

## Petrochemicals

The reduced rate of growth in consumption of conventional petroleum products has largely contributed to the re-orientation of the refining capacity of Canadian oil companies in the past few years. Petrochemical products have become a very important factor. For this reason, we intend to devote increasingly large resources to this sector and to development of new markets. In fact, Petrofina Canada is now the largest Canadian producer of aromatics. These petrochemical derivatives are widely used in the manufacture of plastics.

Petrochemicals are derived by a series of processes which break down the complex molecular structure of petroleum and reunite selected components by chemical reaction to form the desired product. It is estimated that petrochemicals contribute more than 90% to the production of chemical products of organic origin.

Our petrochemical production has undergone a steady expansion in recent years. In 1975, Petrofina Canada set up a subsidiary to sell the Company's petrochemical products on a worldwide basis. Finachem Canada Inc., a 51% owned subsidiary, was established to market the entire petrochemical production of our refinery and to trade in petrochemicals on the Canadian and International markets for its own account.

In 1979, world markets for aromatics were extremely firm and prices for benzene, toluene and xylene, in particular, responded accordingly. Benzene, toluene and xylene are basic to the manufacture of plastic raw materials, synthetic fibres, and the myriad organic chemicals that find their use in every aspect of modern life.

This trend in markets is expected to continue. Since the production and processing of plastic materials require less energy input than most alternatives, the increasing cost of energy favours the plastics industry.

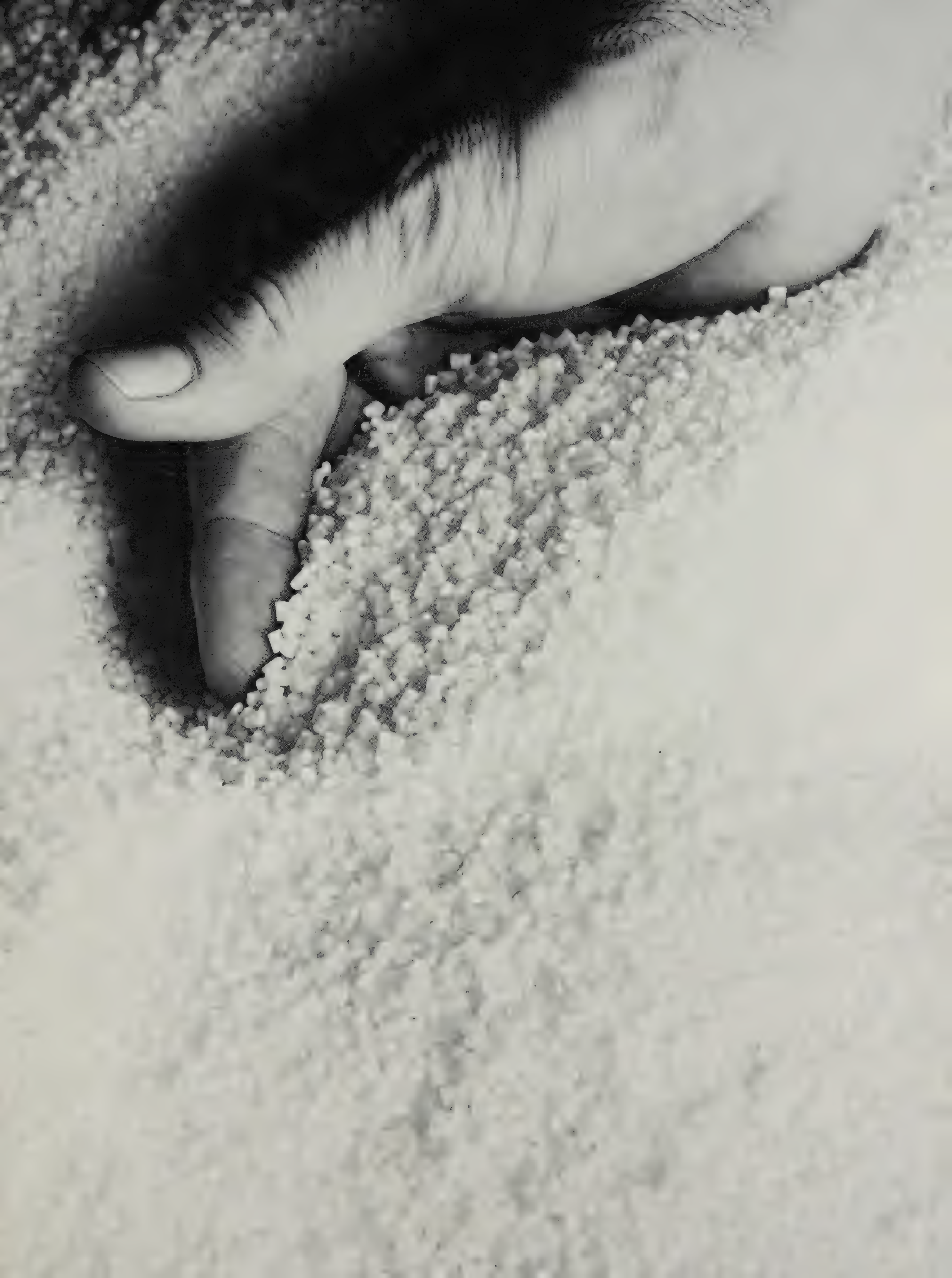
Total sales revenue for Finachem in 1979 amounted to $157 million more than double the $76 million it had achieved in 1978. This substantial gain reflects higher production, the addition of a new product and the improved market conditions enjoyed throughout the year.

A further significant advance for Finachem occurred in December 1979, with the Company's decision to build a polystyrene plant in Pointe-aux-Trembles, adjacent to the present petrochemical complex, at a total cost of $15 million. The new plant, which represents the Company's first venture into the manufacture of plastic raw materials, will be owned and operated by Finachem. This broadens opportunities for Finachem, which has hitherto been solely concerned with the marketing of petrochemicals.

The rated capacity of the polystyrene plant will be 36 000 tonnes (80 million pounds) per year, approximately equal to current Canadian imports of these materials. However, the design is such that this figure may be economically doubled at any time subsequent to its initial start-up which is scheduled for early 1981.

The plant will specialize in the production of high-impact polystyrene, a copolymer of styrene and butadiene rubber. Styrene, as used in the polymerization process, is derived from benzene; butadiene rubber is also derived from petroleum. Polystyrene is used in a wide range of industrial applications and consumer products from thermal insulating materials and food containers to disposable dishes and plates; from toys to refrigerator door liners and various types of packaging.

Polystyrene is used in a wide range of industrial applications and consumer products.



## Marketing

Although total consumption of refined products increased only moderately in 1979, there was a progressive improvement in marketing revenues during each successive quarter.

The Company was faced with the challenge of maintaining a satisfactory balance between sales and available product supply. Renewed emphasis was focused on expense control, optimum revenues, and improved efficiency and profitability from all investments. We are most encouraged by the results of these actions.

In 1979, we continued our programme of consolidating and strengthening our network of retail gasoline outlets. This is being achieved by replacing unsatisfactory locations with the more popular and efficient self-serve outlets, and by establishing an additional number of independent dealer stations under the FINA brand.

FINA SUPER LEAD-FREE, a new gasoline introduced in the latter part of 1978, has enjoyed excellent acceptance. Both grades of FINA lead-free gasoline continue to increase in sales volume, as the number of automobiles requiring lead-free fuel continues to grow.

The Company's entire production of aviation jet fuel was supplied to a number of major airlines at the Montreal and Mirabel international airports. Sales of asphalt and asphaltic products also reached new heights. Our T.B.A. Section continued to break previous sales records for tires, batteries, automotive parts and accessories.

As previously planned, the Marketing Department successfully implemented its scheduled conversion to the metric system of measurements. This major task was accomplished in an efficient manner and at relatively small cost. At the same time, the packaging of the Company's line of lubricating oils and greases was redesigned and modernized to reflect the new dynamic FINA visual image.

The FINA "Standards of Excellence" programme was continued, emphasizing constantly higher standards of customer service in every phase of the Company's marketing operations.

## Public affairs

Our energy future and the general socio-economic evolution of our country dominated events in 1979. Senior members of our staff participated in the dialogue on these matters by addressing public gatherings across the country at every opportunity. A number of others have assumed responsibilities within various organizations in the energy sector at both the regional and national levels. The Company's views on these and other resource related issues were made known to our customers through the use of envelope stuffers in direct mail communications.

The staff communication programme continued in accordance with the established time schedule. Specific action was taken in several areas during the year to improve working conditions as a direct result of feedback from this programme.

## Environmental Protection

The past year was one of active concern for the environment; generally as well as specifically in matters related to the workplace. The general public, our various levels of government, Canadian industry at large, and the petroleum industry in particular, were all deeply involved.

During the year, one major environmental project was completed at our Pointe-aux-Trembles refinery, and two new ones begun. The completed project is a new effluent treatment plant, officially inaugurated in October and designed to provide secondary treatment for 18.2 million litres (four million gallons) of waste water per day. The total capital cost of the project amounted to $16 million.

A programme was also started in 1979 to reduce the quantity of emissions of hydrocarbons from existing storage tanks with completion expected by about the end of 1983. With the rapid increase in the price of petroleum, this project will combine environmental advantages with economic benefits that will at least partially offset its costs.

A second project in air pollution abatement at the refinery is directed to the reduction of particulate emissions from the Houdriflow catalytic cracker. This modification, at an estimated capital cost of $6 million, is scheduled to be completed by 1983.

The Marketing Department is engaged in an experimental project to determine whether hydrocarbon emissions from very small storage tanks can be reduced and to assess the environmental and conservation benefits.

In western Canada, equipment was installed to improve the recovery of hydrocarbons from effluent water at the Wildcat Hills plant. At Greencourt, modifications were made to the sulphur recovery plant to reduce ground level concentrations of sulphur dioxide in the surrounding air.

Seven provinces, in the course of the year, introduced new legislation or amendments to existing legislation, in the area of occupational health. This included contentious proposed legislation in the Province of Quebec where, although there is broad general agreement on the objectives of the proposed law, there are grave misgivings with respect to its methods.

The Company was faced with the challenge of maintaining a satisfactory balance between sales and available product supply.

# Summary of Accounting Policies

Petrofina Canada Inc. December 31, 1979

**Principles of consolidation**
The consolidated financial statements include the accounts of Petrofina Canada Inc. and those of its subsidiaries. The Company's proportionate share of assets and liabilities of the Syncrude project are included in the accounts along with its share of revenues and costs from September 1, 1979, the date of acquisition.

**Premiums paid on acquisitions**
Premiums represent the excess of the purchase price over the value ascribed to net tangible assets of businesses acquired. The premiums are amortized over their estimated useful lives. During the year, management has re-examined the expected future benefits related to these premiums and has concluded that under present and foreseeable market conditions the useful lives of these assets have expired. Accordingly, the unamortized balances have been charged against earnings in the current year.

**Inventories**
Oil products are stated at the lower of cost and net realizable value. Cost of oil products has been determined on the basis of the last-in, first-out method except for crude oil in transit, which is carried at actual cost. Inventories of materials and supplies are stated at the lower of average cost and replacement value.

**Investments and advances**
Investments are stated at cost. Advances, which consist of mortgages and other receivables, are shown at anticipated realizable value.

**Properties, plant and equipment**
The full-cost method of accounting is followed whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized. Refining, marketing and other properties, plant and equipment are carried at cost.

**Depreciation and depletion**
Amounts capitalized under the full-cost method are depleted on the composite unit of production method based on estimated proven reserves of oil, gas and other saleable products. Depreciation on production equipment, gas plants and related facilities is provided on the same basis. Amounts capitalized for the Syncrude project are depleted separately on the composite unit of production method over its currently estimated twenty-five year service life.

Depreciation on refining, marketing and other properties, plant and equipment is based on the estimated service lives of the assets, calculated on the straight-line method, except for motor vehicles where the diminishing balance method is used. Depreciation is calculated at the following average rates: Buildings 2.50%, Equipment 6.66%, Motor vehicles 30%.

**Foreign currencies**
Amounts in currencies other than Canadian dollars have been translated as follows: current assets and current liabilities — at the rates of exchange prevailing at the end of each year; long-term debt — at the rates of exchange prevailing at the dates when the debts were incurred; revenues and expenses — at average rates of exchange through the year.

**Oil import compensation**
Under the oil import compensation programme the Federal Government compensates eligible importers for certain cost increases with respect to petroleum imported for consumption in Canada, provided the importing company voluntarily maintains prices for certain products obtained from imported petroleum at levels not to exceed those suggested by the Government. Compensation received or recoverable under this programme is reflected as a reduction of product costs or inventories as applicable.

**Pension plan**
Current service costs of pension benefits and experience deficiencies are accrued and funded on a current basis. Past service costs, arising from modifications of benefits under the plan since 1974, are amortized and funded over a fifteen year period.

**Income taxes**
The Company provides for income taxes on the tax allocation basis of accounting under which the provision for income taxes is computed on the basis of income reported in the financial statements rather than that reported in the tax returns. Taxes provided on income deferred for tax purposes by claiming deductions greater than the related charges in the accounts are reflected as deferred income taxes in the Consolidated Balance Sheet.

# Consolidated Statements of Earnings and Retained Earnings

Petrofina Canada Inc.

For the year ended December 31, 1979

| Earnings | 1979 | 1978 |
|---|---|---|
| | (in thousands of dollars) | |
| Revenues: | | |
| Operating revenue | $762,587 | $590,997 |
| Interest and other | 1,815 | 2,617 |
| | 764,402 | 593,614 |
| Expenses: | | |
| Product costs, operating and administrative expenses | 598,944 | 506,107 |
| Depreciation | 18,167 | 16,183 |
| Depletion | 10,511 | 7,711 |
| Amortization and write off of premiums paid on acquisitions | 2,840 | 474 |
| Interest on long-term debt | 17,837 | 9,249 |
| Other interest | 3,223 | 4,354 |
| Taxes other than income taxes | 10,287 | 9,563 |
| | 661,809 | 553,641 |
| Earnings before income taxes and minority interest | 102,593 | 39,973 |
| Income taxes (note 6) | 39,441 | 16,477 |
| Minority interest | 1,565 | 233 |
| **Net earnings** | $ 61,587 | $ 23,263 |
| Earnings per share | $ 6.13 | $ 2.33 |

**Retained Earnings**

| | | |
|---|---|---|
| Retained earnings, beginning of year | | |
| As previously reported | $157,543 | $145,865 |
| Adjustment of prior years' income taxes (note 8) | (15,341) | (14,912) |
| As restated | 142,202 | 130,953 |
| Add net earnings | 61,587 | 23,263 |
| | 203,789 | 154,216 |
| Deduct dividends | 13,040 | 12,014 |
| Retained earnings, end of year | $190,749 | $142,202 |

See accompanying summary of accounting policies and notes

# Consolidated Balance Sheet

Petrofina Canada Inc. (Incorporated under the laws of Canada) December 31, 1979

| Assets | 1979 | 1978 |
|---|---|---|
| | (in thousands of dollars) | |
| Current: | | |
| Cash | $ 4,556 | $ 1,738 |
| Short term deposits | — | 19,117 |
| Accounts receivable | 123,163 | 102,987 |
| Oil import compensation recoverable | 1,387 | 36 |
| Due from affiliated companies | 2,115 | 14,293 |
| Inventories | | |
| Oil products | 109,845 | 78,922 |
| Materials and supplies | 14,837 | 9,860 |
| Prepaid expenses | 6,936 | 5,585 |
| Total current assets | 262,839 | 232,538 |
| **Income Taxes Recoverable** (note 8) | — | 6,557 |
| **Investments and Advances** (note 2) | 11,732 | 11,817 |
| **Properties, Plant and Equipment** (note 3) | 532,297 | 322,098 |
| **Deferred Charges** | 3,481 | 3,811 |
| **Premiums Paid on Acquisitions** | — | 2,778 |
| | $810,349 | $579,599 |

On behalf of the Board:

P.A. Nadeau, Director

Laurent A. Picard, Director

| Liabilities and Shareholders' Equity | 1979 | 1978 |
|---|---|---|
| | (in thousands of dollars) | |
| **Current:** | | |
| Notes payable | $ 41,815 | $ 61,635 |
| Accounts payable and accrued charges | 93,962 | 75,893 |
| Income taxes payable | 6,040 | 15,567 |
| Due to affiliated companies | 46 | 5,712 |
| Current maturities of long-term debt | 10,628 | 11,151 |
| Total current liabilities | 152,491 | 169,958 |
| **Long-Term Debt** (note 4) | 256,476 | 85,560 |
| **Deferred Income Taxes** | 91,869 | 65,398 |
| **Minority Interest** | 2,132 | 496 |
| **Shareholders' Equity:** | | |
| Capital stock (note 5) | 100,648 | 100,160 |
| Contributed surplus | 15,984 | 15,825 |
| Retained earnings | 190,749 | 142,202 |
| | 307,381 | 258,187 |
| | $810,349 | $579,599 |

See accompanying summary of accounting policies and notes

# Auditors' Report

To the Shareholders of Petrofina Canada Inc.:

We have examined the consolidated balance sheet of Petrofina Canada Inc. as at December 31, 1979 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Canada
January 30, 1980.

Clarkson Gordon
Chartered Accountants

# Consolidated Statement of Changes in Financial Position

Petrofina Canada Inc.

For the year ended December 31, 1979

| | 1979 | 1978 |
|---|---|---|
| | (in thousands of dollars) | |
| **Source of funds:** | | |
| Net earnings from operations | $ 61,587 | $ 23,263 |
| Amounts not affecting working capital: | | |
| Depreciation, depletion and amortization | 31,942 | 24,794 |
| Deferred income taxes | 26,471 | 8,121 |
| Minority interest | 1,636 | 233 |
| Total funds from operations | 121,636 | 56,411 |
| Long-term borrowings — Syncrude project | 185,000 | — |
| — other | 1,783 | 40,208 |
| Sale of properties, plant and equipment | 5,139 | 3,141 |
| | 313,558 | 99,760 |
| **Use of funds:** | | |
| Additions to properties, plant and equipment | | |
| — Syncrude project | 184,912 | — |
| — other | 59,104 | 43,963 |
| Repayments of long-term debt | 15,867 | 25,320 |
| Dividends | 13,040 | 12,014 |
| Income taxes recoverable | (6,557) | 6,557 |
| Other (net) | (576) | 1,284 |
| | 265,790 | 89,138 |
| **Net increase in working capital** | 47,768 | 10,622 |
| **Working capital, beginning of year** | | |
| As previously reported | 62,580 | 64,038 |
| Adjustment of retained earnings and deferred income taxes due to prior period adjustment (note 8) | — | (12,080) |
| As restated | 62,580 | 51,958 |
| **Working capital, end of year** | $110,348 | $ 62,580 |

See accompanying summary of accounting policies and notes

# Notes to the Consolidated Financial Statements

Petrofina Canada Inc. December 31, 1979

**1. Syncrude project**
Effective September 1, 1979, the Company acquired a 5% interest in the Syncrude project for a cash consideration of $185 million and the payment of a gross overriding royalty equal to 8% of the value of the Company's share of production, subject to annual and cumulative volume limits to 1999. The $185 million financing was obtained through bank borrowings which are repayable on February 1, 1982. It is the Company's intention to refinance the loan prior to this date.

**2. Investments and advances**
Investments, amounting to $9,012,000, consist of a 2% carried interest in future net production income of Panarctic Oils Ltd. and shares of pipeline companies. Advances, amounting to $2,720,000, consist of mortgages and other receivables.

**3. Properties, plant and equipment**

| | 1979 | | | 1978 |
|---|---|---|---|---|
| | Cost | Accumulated depreciation and depletion | Net book value | Net book value |
| | | (in thousands of dollars) | | |
| Exploration and production (excluding Syncrude project) | $313,202 | $140,898 (a) | $172,304 | $151,356 |
| Syncrude project | 184,912 | 914 | 183,998 | — |
| Refining | 199,176 | 92,065 | 107,111 | 100,511 |
| Marketing | 114,206 | 45,322 | 68,884 | 70,231 |
| | $811,496 | $279,199 | $532,297 | $322,098 |

(a) includes depletion of $111,743

**4. Long-term debt** (in thousands of dollars)

| | | |
|---|---|---|
| Secured: | | |
| Production loans secured by certain oil and gas properties, payable in various amounts through 1983 with interest between ¾% and 1% above the prime rate | $ 2,005 | |
| Other loans | 202 | $ 2,207 |
| Unsecured: | | |
| Interim financing loan with interest at bank prime rate due in 1982 (note 1) | 185,000 | |
| Loans with interest between ½% and 1% above the prime rate, due in varying annual instalments through 1990 | 73,700 | |
| Loan in the amount of U.S. $1,500,000 (Canadian $1,752,000 translated at year-end exchange rate) with interest at ¾% above U.S. base rate payable U.S. $500,000 annually to 1982 | 1,629 | |
| 6⅛% promissory notes totalling U.S. $1,800,000 (Canadian $2,102,000 translated at year-end exchange rate) payable U.S. $850,000 in 1980 and the balance in 1981 | 2,016 | |
| 6% loans totalling U.S. $618,000 (Canadian $722,000 translated at year-end exchange rate) due in varying semi-annual instalments to 1981 | 668 | |
| Other loans and long-term obligations | 1,884 | 264,897 |
| | | 267,104 |
| Less instalments included in current liabilities | | 10,628 |
| | | $256,476 |

Annual payments required to retire long-term debt including estimated repayment of production advances and loans amount to approximately $10,788,000 in 1981, $198,723,000 in 1982 (note 1), $6,515,000 in 1983 and $5,765,000 in 1984.

### 5. Capital Stock

Authorized:
As a result of continuing under the Canada Business Corporations Act in 1979, the authorized share capital of the Company has changed from 12,000,000 common shares of $10 par value to 16,000,000 common shares without nominal or par value.

Issued:
Common — 10,048,866 shares (1978 — 10,015,974)
During the year the Company issued 32,892 common shares for a cash consideration of $647,231.
Under the Company's stock option plan 58,100 shares are reserved to meet options outstanding which are exercisable at $16.75 per share before April 20, 1982.

### 6. Income Tax

Total income tax expense was $39,441,000 in 1979 and $16,477,000 in 1978 which represents an effective tax rate on earnings before income taxes of 38.4 per cent and 41.2 per cent respectively. The following schedule shows the main differences between the combined Federal and Provincial statutory tax rate and these effective rates:

| | 1979 | | 1978 | |
|---|---|---|---|---|
| | (in millions of dollars) | | | |
| | Amount | % | Amount | % |
| Provision for income taxes at statutory rates | $49.3 | 48.1 | $19.2 | 48.0 |
| Add (deduct) the tax effect of: | | | | |
| Inclusion in taxable income of crown royalties and other provincial payments | 18.5 | 18.0 | 14.5 | 36.3 |
| Resource allowance to partially offset inclusion of crown royalties | (15.4) | (15.0) | (11.7) | (29.3) |
| Depletion allowance earned by exploration and development expenditures | (9.0) | (8.8) | (3.1) | (7.8) |
| Inventory allowance to partially offset the effect of inflation | (1.7) | (1.7) | (2.5) | (6.2) |
| Other | (2.3) | (2.2) | .1 | .2 |
| Provision for income taxes reflected in the statement of earnings | $39.4 | 38.4 | $16.5 | 41.2 |

**7. Financial Results by Business Segments**

| (in thousands of dollars) | Revenues | | Net Earnings | | Capital Employed at December 31 | |
|---|---|---|---|---|---|---|
| | 1979 | 1978 | 1979 | 1978 | 1979 | 1978 |
| Segments | | | | | | |
| Resources | $117,620 | $ 88,904 | $45,077 | $34,472 | $374,256 | $163,691 |
| Refined products and petrochemicals | 646,782 | 504,710 | 26,154 | (6,399) | 294,230 | 257,101 |
| Interest on long-term debt | | | (9,644) | (4,810) | | |
| | $764,402 | $593,614 | $61,587 | $23,263 | $668,486 | $420,792 |

The Directors of the Company have determined the classes of business to be a resources segment and a refined products and petrochemicals segment.

The resources segment comprises exploration, development and production activities related to crude oil, natural gas, gas liquids, sulphur, coal and minerals.

The refined products and petrochemicals segment includes the manufacture, distribution and sale of petroleum products.

Income taxes have been calculated for each segment in accordance with applicable legislation.

**8. Adjustment of Prior Years' Income Taxes**

Revenue Canada — Taxation and the Ministry of Revenue — Ontario have reassessed the Company for the taxation years 1970 to 1976 inclusive in respect of certain transactions with a non-resident wholly owned subsidiary Company. These reassessments resulted in a reduction of costs claimed in computing its income for these years. The Company, with the advice of Counsel, has accepted a proposal of settlement from Revenue Canada — Taxation and has adjusted its retained earnings as at December 31, 1978 to show a retroactive charge of $15,341,000 in respect of the resulting taxes and interest. Of this amount $429,000 is applicable to the year 1978, and has been charged against earnings for that year. The adjustment for taxes and interest includes provisions for the Provinces of Quebec and Ontario on the assumption that proportionately similar settlements will be made.

Upon receipt of these reassessments, the Company, as required by law, had made payments of approximately $19,000,000 to Revenue Canada — Taxation and the Ministry of Revenue — Ontario. These were reflected in the financial statements of the previous year as income taxes recoverable. As a result of this settlement, the Company is entitled to refunds of approximately $6,600,000 which have been included with accounts receivable in the current year.

**9. Pension Plan**

The unfunded past service obligation is estimated, on a present value basis, to be $9,171,000. This is based on an independent actuarial valuation of the pension plan as at January 1, 1979 updated to December 31, 1979.

# Five Year Review of Operations

| Statistical | 1979 | 1978* | 1977* | 1976* | 1975* |
|---|---|---|---|---|---|
| Crude oil and natural gas liquids production, before royalty (thousands of cubic metres) | | | | | |
| — conventional | 1 190 | 1 036 | 1 036 | 1 065 | 1 224 |
| — synthetic | 47 | — | — | — | — |
| Natural gas sales, before royalty (millions of cubic metres) | 841 | 754 | 838 | 852 | 864 |
| Number of wells drilled in which Company had participation | 111 | 73 | 91 | 79 | 65 |
| Number of wells completed in which Company had participation | 71 | 36 | 41 | 49 | 29 |
| Sulphur sales (thousands of tonnes) | 138 | 174 | 156 | 182 | 147 |
| Gross land holdings (thousands of hectares) | 3 316 | 3 480 | 5 220 | 5 260 | 7 324 |
| Net land holdings (thousands of hectares) | 976 | 971 | 1 295 | 1 295 | 1 659 |
| Crude oil runs to refinery (thousands of cubic metres) | 4 514 | 4 197 | 4 372 | 4 595 | 4 229 |
| Total outlets used in distribution of refined products | 1 086 | 1 091 | 1 120 | 1 215 | 1 462 |
| Number of employees | 2 380 | 2 466 | 2 412 | 2 352 | 2 347 |

| Financial | (in thousands of dollars) | | | | |
|---|---|---|---|---|---|
| Revenue | $764,400 | $593,600 | $531,100 | $501,500 | $398,800 |
| Net earnings | 61,600 | 23,300 | 28,600 | 22,000 | 32,300 |
| Depreciation, depletion and amortization | 31,900 | 24,800 | 23,700 | 22,600 | 21,300 |
| Total cash generated | 121,600 | 56,400 | 56,200 | 50,000 | 70,300 |
| Working capital | 110,300 | 62,600 | 53,300 | 59,600 | 65,000 |
| Total assets | 810,300 | 579,600 | 586,000 | 511,000 | 518,500 |
| Long-term debt | 256,500 | 85,600 | 70,700 | 86,300 | 98,600 |
| Book value of shareholders' equity | 307,400 | 258,200 | 246,800 | 229,200 | 218,100 |

*As restated in 1979.

# Directors and Officers

**Principal Officer**

**P.A. Nadeau,**
Chairman of the Board,
President and Chief Executive Officer

**Senior Vice-President**

**J.E. Baugh,**
Exploration & Production

**Vice-Presidents**

**T.H. Allman,** C.A.,
Treasurer

**P.F. Cotsworth,**
Production

**G.A. Craig,**
Comptroller

**J.A. Dodd,**
Manufacturing

**N.S. Mahlab,**
Administration

**A.W. McLeod,**
General Counsel
and Secretary

**R.J. Redding,**
Marketing

**N.H. Van Son,**
Supply & Logistics

**Directors**

**Jean-Pierre Amory,**
Executive Director,
Petrofina S.A.

***W.A. Arbuckle,**
Chairman,
Tioxide Canada Inc.

**J.E. Baugh,**
Senior Vice-President,
Petrofina Canada Inc.

**Claude Castonguay,**
Chairman of the Board,
Imperial Life Assurance Company of Canada

**F.M. Covert,**
O.B.E., D.F.C., Q.C.,
Senior Partner,
Stewart, MacKeen & Covert

**A. Demeure de Lespaul,**
Chairman of the Board,
President and
Chief Executive Officer,
Petrofina S.A.

**Richard I. Galland,**
Chairman of the Board and
Chief Executive Officer,
American Petrofina, Incorporated

**Dr. James B. Hyne,**
Dean of Faculty
of Graduate Studies,
University of Calgary

**Emmanuel Lamy,**
President,
Financière de l'Union Parisienne et du Nord

**Roger Létourneau,** Q.C.,
Senior Partner,
Létourneau & Stein

***K.S.C. Mulhall,**
Financial Consultant

**P.A. Nadeau,**
Chairman of the Board,
President and Chief Executive Officer,
Petrofina Canada Inc.

***Laurent A. Picard,**
Dean, Faculty of Management,
McGill University

**Baron Didrik Snoy,**
Executive Director,
Petrofina S.A.

**Peter N. Thomson,**
Chairman,
TIW Industries Ltd.

*Member of the Audit Committee

**Executive Offices**
The Royal Bank of Canada Building,
1 Place Ville Marie,
Montréal, Québec H3B 4A9

**Auditors**
Clarkson Gordon

**Transfer Agent**
Montreal Trust Company

**Registrar**
The Royal Trust Company

RENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE P
RENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE PO
NE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POL
ENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POL
E POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLY
YRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE
NE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POL
E POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYS
RENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE P
ENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE POLYSTYRENE PO
ZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE B
ZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE
ZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE B
NZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE
NZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE
NZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE
ENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BE
NZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE
E BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZ
NZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE BENZENE B
UENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE T
LUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE
OLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE
ENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOL
NE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOL
UENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE T
TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUEN
LUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE
ENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TO
UENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE TOLUENE T
XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLEN
ENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE X
YLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLEN
XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLE
YLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLEN
ENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE X
E XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYL
E XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYL
NE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XY
YLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLENE XYLEN
LEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PE
EUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PET
LEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM P
ROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM
EUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PE
OLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM P
OLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM P
ROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEU
LEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM P
OLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM PETROLEUM